



# The Chinese healthcare challenge

## Comment on “Shanghai rising: avoidable mortality as measured by avoidable mortality since 2000”

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### Abstract

Investments in the extension of health insurance coverage, the strengthening of public health services, as well as primary care and better hospitals, highlights the emerging role of healthcare as part of China's new growth regime, based on an expansion of services, and redistributive policies. Such investments, apart from their central role in terms of relief for low-income people, serve to rebalance the Chinese economy away from export-led growth toward the domestic market, particularly in megacity-regions as Shanghai and the Pearl River Delta, which confront the challenge of integrating migrant workers. Based on the paper by Gusmano and colleagues, one would expect improvements in population health for permanent residents of China's cities. The challenge ahead, however, is how to address the growth of inequalities in income, wealth and the social wage.

**Keywords:** Healthcare Challenges, China, Inequalities, Universal Health Coverage

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Gusmano and colleagues (1) have written an important paper that highlights the expanding role of healthcare and its probable effects in contributing to population health improvements in Shanghai. What they do not include in their analysis, however, is any political-economic context in which to understand why the example of cities like Shanghai may be forerunners of what we may expect in China's exploding cities. Therefore, I propose to present this perspective in my commentary.

In 2010, China became the world's largest manufacturing nation (19.8% of the world's manufacturing output) bypassing the US (19.4%), thus ending its 110 year-run as the largest producer of goods (2). After joining the World Trade Organization (WTO) in 2001, China's growth during its golden period (2002–7) was driven mainly by fixed asset investments and exports, whose average annual growth rates were respectively 29% and 24%. Following the spread of the US financial crisis around the world, the fall of global demand revealed China's high export dependency. Meanwhile, the government's stimulus package (2009–10), based on expansionary fiscal and monetary policies to maintain economic growth, raised the investment rate to 48% of GDP for four consecutive years (2009–12), leading to overcapacity in certain sectors, a decline in efficiency, inflation and wage pressures (3).

In order to temper the effects of productivity declines and reductions in exports since 2010, China has moved from investment and export-led growth based on low wage labor towards a new type of slower growth based on research and development (R&D), indigenous innovation and the domestic market. Today the priority sectors are

transportation (high-speed trains, subways, aircraft), renewable energy, and the cutting-edge sectors of R&D (ICT's, life sciences, nanotechnologies, space exploration). In addition, overcapacities in real estate and manufacturing require a decline of investment in these sectors while expanding and restructuring services will be important to sustaining GDP and net employment growth in the medium-term (4). China's health expenditures are much lower, in terms of GDP, than the average for Organisation for Economic Co-operation and Development (OECD) nations.

Under these circumstances the reform of public health, the extension of health insurance coverage and the improvement of healthcare services is an important factor for correcting inequalities and rebalancing growth toward the domestic market, particularly in megacity-regions such as Shanghai and the Pearl River Delta, which confront the challenge of integrating migrant workers.

China's investment and export-led growth, was largely dependent on the supply of cheap labor from the hinterland, in a context of stunted urbanization resulting from the Maoist policies (1949 to 1979). This compelling illustration of Arthur Lewis' development model (5), whereby the transfer of an unlimited supply of labor in traditional sectors feeds accumulation in modern sectors through the urbanization process, has now been challenged for several reasons and that is why we can expect to see the growth of internal investments, including those in the health sector, whose effects the paper by Gusmano and colleagues (1) attempts to assess. To understand the strength and importance of China's new strategy for economic development, it is important to understand why China's high investment and export-led

growth model is no longer sustainable.

First, as early as 2004–7 there was a labor shortage in the Pearl River Delta Region of Guangdong province due partly to the absence of any social insurance for the massive migrant population (6). This region, concentrated between Canton, Shenzhen and Zhuhai, the two special economic zones at the borders of Hong Kong and Macao, accounts for some 30% of foreign investment and exports, and 10% of GDP (7). Although the labor shortage often took the form of high turnover rates, and an imbalance of female employment, this trend is likely to increase in the future. United Nations (UN) projections indicate that in the 20 years from 2010 to 2030, the pool of 15 to 23 years olds, which provides the bulk of labor-intensive activities, will fall, as a result of the one-child policy, by almost 60 million people to a total of 164 million from 202 to 142 million (8).

Second, from 1998 to 2010 China has seen a moderate growth of real wages exceeding the real GDP growth rate by an order of 1% (9). But the rise of real wages has been dramatic since the new decade with the multiplication of labor conflicts in 2010, the second year of the stimulus package following the global crisis. According to a study by the Research Office of the China State Council, in 2006 the migrants from the countryside worked an average of 11 hours a day, 6 or 7 days a week, or nearly 50% more than permanent residents, but received only 60% of the pay, without counting the difference in social protection (10). According to the National Bureau of Statistics of China, 27/05/2013 (in Chinese), of a total of 262 million migrants, 163 are trans-provincial migrants, and 99 million are intra-provincial migrants. In 2012, the average salary for the 163 million trans-provincial migrants reached 2290 RMB (375 US dollars) (11). Some local economists underline China's loss of competitiveness for labor-intensive goods: according to the Ministry of Commerce, China's urban workers' salaries rose at an average of 33% from 2009 to 2011, and minimum salaries rose in 2010 and 2011 at an average of 20% in most of the provinces (12). These higher wages benefit mainly about half of the 260 million migrant workers born after 1980, who are better-educated, with an average of about ten years in school. They are, therefore, more demanding than their parents and more familiar with the internet and new technologies (13).

Third, since 2000, the cost of land has risen at high rates every year, and even more so after the 2008 crisis, when it was used to finance the local part of the stimulus package, which led to a predictable property bubble, in the absence of any land tax. If we add the competitiveness loss due to the reevaluation of the Renminbi to the US dollar, combined with inflation pressures, it is clear that China's high investment and export-led growth model is no longer sustainable.

This triple shock in terms of costs-affecting exchange rates, labor, and land – has increased the importance of China's R&D and innovation policy as the main strategy for ascending the value chain, as Japan and the four dragons had previously done in the mid-1980s. R&D and innovation matter: the US Department of Commerce estimates that 75% of the growth in the American economy since World War II is due to technological innovation (14). In the context of China's current restructuration towards services, which is also an economic priority, investments in the health sector

will become significant areas for growth, and based on the paper by Gusmano and colleagues (1), one might also expect improvements in population health. There is, however, an important challenge ahead – one not lost on the authors of this paper.

The challenge ahead concerns the growth of inequalities in income, wealth and the social wage. The dynamics of Chinese urbanisation, which took off since the mid-eighties, have created a social divide within cities between citizens of urban origin (Hukou) having access to social security, public housing and education, and migrants (Mingong) or second-tier citizens who have migrated from rural areas and are a priori denied such rights (15). The numbers of migrants, whose specific circumstances vary, are estimated at more than a third of the population of Beijing, Shanghai and the Pearl River Delta in Guangdong province (16). Although the urban population is estimated at 52% of the total population, only 35% of the total benefit from the urban status "Hukou".

It is clear that the new policies decided by the third Plenum of the Central Committee in November 2013 aim to create an inclusive growth, a transition from the investment and export-led growth of "cheap China" to a new redistributive model, where the health system, along with other services such as education will have to include the real and not the nominal urban population. The National Urbanization Blueprint for 2014–20 has set a target of 60% of urban population while 45% of population would have access to urban "Hukou". This means extending social benefits such as education and health services to more than 100 million people (17). The new urbanization policy (18) is thus tightly linked to the health reform and investments.

The challenge, however, lies in implementing these goals in public health and social improvements which are far more complicated than building physical infrastructure. Indeed, it will be important to continue tracking the impact of efforts by municipal and provincial governments, hospitals, physicians, pharmaceuticals and other stakeholders, as they negotiate the implementation of what is surely the most ambitious attempt, worldwide, to provide universal healthcare coverage to a national population of over 1.3 billion.

#### Ethical issues

Not applicable.

#### Competing interests

Author declares that he has no competing interests.

#### Author's contribution

GF is the single author of the manuscript.

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